

109TH CONGRESS  
1ST SESSION

# S. 1586

To allow all businesses to make up to 24 transfers each month from interest-bearing transaction accounts to other transaction accounts, to require the payment of interest on reserves held for depository institutions at Federal reserve banks, to repeal the prohibition of interest on business accounts, and for other purposes.

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## IN THE SENATE OF THE UNITED STATES

JULY 29, 2005

Mr. HAGEL (for himself, Ms. SNOWE, and Mr. REED) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

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## A BILL

To allow all businesses to make up to 24 transfers each month from interest-bearing transaction accounts to other transaction accounts, to require the payment of interest on reserves held for depository institutions at Federal reserve banks, to repeal the prohibition of interest on business accounts, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

### 3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Interest on Business  
5 Checking Act of 2005”.

1 **SEC. 2. INTEREST-BEARING TRANSACTION ACCOUNTS AU-**  
 2 **THORIZED FOR ALL BUSINESSES.**

3 Section 2(a) of Public Law 93–100 (12 U.S.C.  
 4 1832(a)) is amended by adding at the end the following:

5 “(3)(A) Notwithstanding any other provision of  
 6 law, any depository institution may permit the owner  
 7 of any deposit or account which is a deposit or ac-  
 8 count on which interest or dividends are paid to  
 9 make not more than 24 transfers per month (or  
 10 such greater number as the Board of Governors of  
 11 the Federal Reserve System may determine by rule  
 12 or order), for any purpose, to another account of the  
 13 owner in the same institution.

14 “(B) An account offered pursuant to this para-  
 15 graph shall be considered a transaction account for  
 16 purposes of section 19 of the Federal Reserve Act,  
 17 unless the Board of Governors of the Federal Re-  
 18 serve System determines otherwise.”.

19 **SEC. 3. AUTHORIZATION OF INTEREST-BEARING TRANS-**  
 20 **ACTION ACCOUNTS.**

21 (a) REPEAL OF PROHIBITION ON PAYMENT OF IN-  
 22 TEREST ON DEMAND DEPOSITS.—

23 (1) FEDERAL RESERVE ACT.—Section 19(i) of  
 24 the Federal Reserve Act (12 U.S.C. 371a) is re-  
 25 pealed.

1           (2) HOME OWNERS’ LOAN ACT.—Section  
 2           5(b)(1)(B) of the Home Owners’ Loan Act (12  
 3           U.S.C. 1464(b)(1)(B)) is amended by striking “sav-  
 4           ings association may not—” and all that follows  
 5           through “(ii) permit any” and inserting “savings as-  
 6           sociation may not permit any”.

7           (3) FEDERAL DEPOSIT INSURANCE ACT.—Sec-  
 8           tion 18(g) of the Federal Deposit Insurance Act (12  
 9           U.S.C. 1828(g)) is repealed.

10          (b) JOINT RULEMAKING REQUIRED.—

11           (1) IN GENERAL.—Not later than 90 days after  
 12           the date of enactment of this Act, the Federal bank-  
 13           ing agencies shall issue joint final regulations imple-  
 14           menting the provisions of subsection (a).

15           (2) EFFECTIVE DATE OF REGULATIONS.—The  
 16           regulations required by this subsection shall take ef-  
 17           fect not later than 90 days after the date of enact-  
 18           ment of this Act.

19           (3) DEFINITIONS.—As used in this subsection,  
 20           the term “Federal banking agency” has the same  
 21           meaning as in section 3 of the Federal Deposit In-  
 22           surance Act (12 U.S.C. 1813).

23          (c) EFFECTIVE DATE OF REPEAL.—The amend-  
 24          ments made by subsection (a) shall become effective on  
 25          the earlier of—

1 (1) 90 days after the date of enactment of this  
 2 Act; or

3 (2) the date on which final regulations required  
 4 to be issued under subsection (b) become effective.

5 **SEC. 4. PAYMENT OF INTEREST ON RESERVES AT FEDERAL**  
 6 **RESERVE BANKS.**

7 (a) IN GENERAL.—Section 19(b) of the Federal Re-  
 8 serve Act (12 U.S.C. 461(b)) is amended by adding at  
 9 the end the following:

10 “(12) EARNINGS ON RESERVES.—

11 “(A) IN GENERAL.—Balances maintained  
 12 at a Federal reserve bank by or on behalf of a  
 13 depository institution may receive earnings to  
 14 be paid by the Federal reserve bank at least  
 15 once each calendar quarter at a rate or rates  
 16 not to exceed the general level of short-term in-  
 17 terest rates.

18 “(B) REGULATIONS RELATING TO PAY-  
 19 MENTS AND DISTRIBUTION.—The Board may  
 20 promulgate regulations concerning—

21 “(i) the payment of earnings in ac-  
 22 cordance with this paragraph;

23 “(ii) the distribution of such earnings  
 24 to the depository institutions which main-

tain balances at such banks or on whose  
 behalf such balances are maintained; and

“(iii) the responsibilities of depository  
 institutions, Federal home loan banks, and  
 the National Credit Union Administration  
 Central Liquidity Facility with respect to  
 the crediting and distribution of earnings  
 attributable to balances maintained, in ac-  
 cordance with subsection (c)(1)(A), in a  
 Federal reserve bank by any such entity on  
 behalf of depository institutions.

“(C) DEPOSITORY INSTITUTION DE-  
 FINED.—For purposes of this paragraph, the  
 term ‘depository institution’, in addition to any  
 institution described in paragraph (1)(A), in-  
 cludes any trust company, corporation orga-  
 nized under section 25A or having an agree-  
 ment with the Board under section 25, or any  
 branch or agency of a foreign bank (as defined  
 in section 1(b) of the International Banking Act  
 of 1978).”.

(b) AUTHORIZATION FOR PASS THROUGH RESERVES  
 FOR MEMBER BANKS.—Section 19(c)(1)(B) of the Fed-  
 eral Reserve Act (12 U.S.C. 461(c)(1)(B)) is amended by  
 striking “which is not a member bank”.

1 (c) TECHNICAL AND CONFORMING AMENDMENTS.—

2 Section 19 of the Federal Reserve Act (12 U.S.C. 461)

3 is amended—

4 (1) in subsection (b)(4),

5 (A) by striking subparagraph (C); and

6 (B) by redesignating subparagraphs (D)

7 and (E) as subparagraphs (C) and (D), respec-

8 tively; and

9 (2) in subsection (c)(1)(A), by striking “sub-

10 section (b)(4)(C)” and inserting “subsection (b)”.

11 **SEC. 5. INCREASED FEDERAL RESERVE BOARD FLEXI-**

12 **BILITY IN SETTING RESERVE REQUIRE-**

13 **MENTS.**

14 Section 19(b)(2)(A) of the Federal Reserve Act (12

15 U.S.C. 461(b)(2)(A)) is amended—

16 (1) in clause (i), by striking “the ratio of 3 per

17 centum” and inserting “a ratio not greater than 3

18 percent (and which may be zero)”; and

19 (2) in clause (ii), by striking “and not less than

20 8 per centum,” and inserting “(and which may be

21 zero),”.

22 **SEC. 6. TREATMENT OF CERTAIN ESCROW ACCOUNTS.**

23 (a) IN GENERAL.—In the case of an escrow account

24 maintained at a depository institution for the purpose of

25 completing the settlement of a real estate transaction, ac-

1 tivities described in subsection (b) shall not be treated as  
 2 the payment or receipt of interest for purposes of this Act  
 3 or any other provision of law relating to the payment of  
 4 interest on accounts or deposits maintained at depository  
 5 institutions, including such provisions in—

- 6 (1) Public Law 93–100;
- 7 (2) the Federal Reserve Act;
- 8 (3) the Home Owners’ Loan Act; or
- 9 (4) the Federal Deposit Insurance Act.

10 (b) EXCLUSIONS.—For purposes of subsection (a),  
 11 activities described in this paragraph are—

12 (1) the absorption, by the depository institution,  
 13 of expenses incidental to providing a normal banking  
 14 service with respect to an escrow account described  
 15 in subsection (a);

16 (2) the forbearance, by the depository institu-  
 17 tion, from charging a fee for providing any such  
 18 banking function; and

19 (3) any benefit which may accrue to the holder  
 20 or the beneficiary of such escrow account as a result  
 21 of an action of the depository institution described  
 22 in paragraph (1) or (2) or a similar action.

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